



**Director of
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IRAQ-IRAN: More Airstrikes Against Shipping

Iraqi aircraft hit an Iranian convoy en route to Bandar-e Khomeyni yesterday.

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Baghdad claims to have hit four ships yesterday. At least one Greek merchant ship was heavily damaged, according to the shipping company. This was the third Iraqi attack in the Persian Gulf in less than a week.

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A South Korean ship on contract to ARAMCO exploded and sank on Tuesday in the same general area of the Gulf where a Greek tanker was hit by an Iraqi missile on the same day. US diplomats in Saudi Arabia say that one crewman was killed and three are missing.

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Comment: The attack yesterday is unlikely to have included strikes against oil tankers.

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So far, the attacks have had only a marginal impact on spot oil prices, but market nervousness is increasing.

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Other Military Developments

There was no significant ground activity yesterday on any of the major fronts.

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SYRIA-LEBANON: Damascus's Next Moves

The Syrians are trying to stop the interfactional fighting around Beirut, but they are unlikely to push for major changes that would upset the current balance of religious representation in the Lebanese Government. [redacted]

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Comment: Damascus is turning its attention to stabilizing the situation in and around Beirut, now that the Lebanese-Israeli accord has been abrogated and the US Multinational Force contingent has been withdrawn. The Syrians believe their best approach is to try to maintain a balance of forces among the factions. [redacted]

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The Syrians hope that a firm cease-fire negotiated at their behest will restore their credibility following their failure to impose a settlement at Lausanne. They want to demonstrate that they can succeed where the US failed. [redacted]

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Damascus favors some concessions to the Druze and the Muslims on sharing political power, but it still wants to preserve the current makeup of the Lebanese Government and retain a Christian president. The Syrians fear that the Christian community would react to the loss of the presidency by establishing a separate minstate with close ties to Israel. They also are concerned that a major shift in power to the Muslims might provoke Israeli military intervention. [redacted]

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USSR-LEBANON: Increasing Political Contacts

The Soviets are increasing their contacts with Lebanese leaders, but they are likely to continue deferring to Syria's special role in Lebanon. [redacted]

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Karen Brutents, Deputy Chief of the International Department of the Communist Party's Central Committee, is to arrive in Beirut next week. [redacted]

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In the last two months Brutents and his chief, Boris Ponomarev, have consulted in Moscow with Druze leader Junblatt and Lebanese Communist Party chief Hawi. Hawi also met with Politburo member Aliyev two weeks ago in Damascus, and the Soviet Ambassador in Beirut recently has had meetings with Lebanese Shia leaders. [redacted]

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Soviet media coverage of the Lebanese national reconciliation conference in Lausanne has been cautiously optimistic. The Soviets have welcomed the abrogation of the Israeli-Lebanese accord and efforts toward constitutional reform. A leading Soviet expert on the Middle East, according to the US Embassy in Moscow, told Lebanese officials earlier this week that the USSR accepted Syria's decision not to push for Gemayel's ouster or for internal reforms, in return for his renunciation of the accord. [redacted]

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The USSR, however, has balanced this positive treatment with greater emphasis on Syria's so-called special interests in Lebanon. A Soviet television commentator contrasted US claims of vital interests in Lebanon with Syria's historical and geographical interests there. [redacted]

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Comment: Brutents's trip was originally planned for last month, but it evidently was postponed when Andropov died. He is likely to explore prospects for closer bilateral ties and to gauge prospects for Lebanese reconciliation. [redacted]

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[redacted] Although the Soviets seem to be developing their own channels for dealing with Beirut, the commentator's remarks indicate they are likely to continue deferring to Damascus on Lebanese issues. [redacted]

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EL SALVADOR: Army Operations Renewed

The Army has resumed offensive operations as part of its plan to maintain security during the runoff election scheduled for late April or early May. [redacted]

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The US defense attache reports that elements of the elite Beloso Battalion have joined other government units in central San Vicente Department to attack guerrilla forces. He says the airborne battalion has moved into northwestern San Miguel Department to act as a blocking force for other units moving in from the east and the southeast. [redacted]

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NICARAGUA: Reactions to Port Mining

A high-level Sandinista military delegation left yesterday for the USSR and North Korea. []

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Defense Minister Humberto Ortega will head a military delegation to Moscow and P'yongyang that includes the commanders of the Navy and the tank corps. The Sandinistas recently said that they were seeking minesweeping equipment and that Vietnam had offered unspecified military aid. []

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The UN Security Council will meet today to hear Sandinista complaints about the mining. Nicaragua also has announced that it has sent emissaries to the Contadora group to ask that it take emergency action to contain increasing acts of aggression. Junta Coordinator Daniel Ortega made a hurried trip to Mexico last week to appeal to President de la Madrid. []

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Meanwhile, Honduras has protested Nicaraguan threats that regional revolutionaries will retaliate by mining Central American harbors. The Hondurans say that these statements undercut the Contadora peace talks and demonstrate Sandinista control over regional leftists. []

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Comment: The USSR might agree to provide minesweeping equipment and possibly technical experts, but it would be unlikely for now to send minesweepers from its Navy. It also probably is willing to provide more equipment for the Army and to continue to use Bulgaria to deliver major weapons. North Korea gave Nicaragua two patrol boats last fall, and it may provide similar equipment. []

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The Contadora mediators presumably have been reluctant to call an emergency meeting because they fear it would complicate progress in the negotiations and compromise their neutrality. Nonetheless, they may publicize Nicaragua's deteriorating security situation at a meeting scheduled for next week. To counteract Nicaragua's complaint, the other Central Americans probably will say that Managua's threats of retaliation and recourse to the Security Council undermine regional negotiations. []

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USSR-CHINA: Talks in Moscow Concluded

The fourth round of Sino-Soviet consultations, which began on 12 March, ended in Moscow last week, with both sides taking a tough line on the major issues but indicating willingness to continue the discussions. []

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Both sides say the talks were "frank and calm" and will resume in Beijing this October. The Chinese negotiator paid the usual courtesy call on Foreign Minister Gromyko before returning home. []

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Deputy Foreign Minister Qian stated privately on 17 March that China has no interest in a basic document regulating bilateral relations as long as Moscow gives no hint of a willingness to compromise on key issues. He also said Beijing is not interested in "confidence-building measures" similar to those being aired at the Conference on Disarmament in Europe. []

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Chinese officials following the talks have indicated that no progress was made on the chief points in dispute. Soviet officials, unlike the Chinese, have not responded to US requests for information on the subject. []

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Deng Xiaoping and Premier Zhao Ziyang told visiting Japanese Prime Minister Nakasone last weekend that China still views the USSR as the "main threat to its security." The Soviet media were prompt to criticize the "anti-Soviet motif" of the Sino-Japanese talks. They also have repeated new criticisms by Mongolia and Vietnam of China's attempts to raise issues involving those countries at the Sino-Soviet talks. []

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Comment: Neither side anticipated much movement at this round of talks, which came just a month after Andropov's death. The Chinese leaders' remarks on the Soviet threat were designed to show common cause with Japan without jeopardizing the dialogue with Moscow. []

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The Soviets are reluctant to inject new problems into their relations with China. Nonetheless, they remain determined to respond to Chinese public statements they regard as particularly offensive—such as those made during Nakasone's visit. Meanwhile, they are as willing as the Chinese to continue expanding contacts in economic, cultural, and other fields. []

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HONG KONG: Investor Confidence Shaken

The announcement yesterday by Jardine Matheson, Hong Kong's leading trading company, that it plans to move its legal domicile to Bermuda has stunned the colony and sent its stock market plunging.

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A simultaneous decision by Hutchison Whampoa, another major trading company, to pay a large bonus dividend to shareholders rather than to reinvest profits in the company, is being viewed in financial circles as showing a lack of confidence in Hong Kong's future. The announcements drove the Hong Kong stock market down 7 percent in the first hour of trading, which is the biggest drop in one day since last September.

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Government authorities have labeled Jardine's move a commercial decision. Communist-controlled newspapers in the colony, however, have suggested that it was made in consultation with the UK in an attempt to influence continuing negotiations over Hong Kong's future.

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Comment: Although the British have tried to play on investors' concerns about the economy in past negotiations with the Chinese, Jardine's decision probably was taken unilaterally and primarily to put itself into position to move funds out of Hong Kong quickly if necessary. Jardine will maintain its headquarters office in Hong Kong.

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Nevertheless, Jardine's announcement has split the united front of businessmen who previously had been trying to maintain a show of confidence in the colony's future. Although Jardine's action could start a snowball effect among other firms, most probably will not decide until after Beijing announces its intentions regarding the colony in September.

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CHINA-VIETNAM: Alleged Air Incident

Beijing has announced that on Tuesday Chinese Air Force
gunners fired on and damaged a Vietnamese MIG-21 that flew over
Pingxiang. [REDACTED]

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Comment: This is the first announcement of an air incident by
either side since border tension increased in early February. Beijing
probably is using the alleged incident, which Vietnam has denied, as a
warning to Hanoi not to increase the level of attacks against
Kampuchean resistance bases along the Thai border. China has
enough forces on the Vietnamese border to conduct artillery barrages
and limited assaults across the frontier. There are no indications,
however, that the Chinese have deployed forces on a scale needed for
an invasion. [REDACTED]

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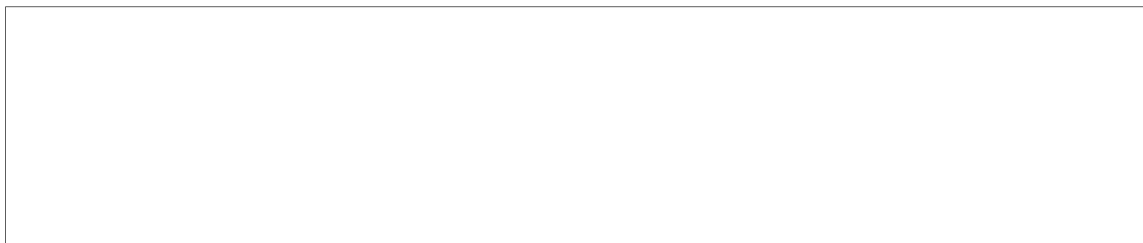
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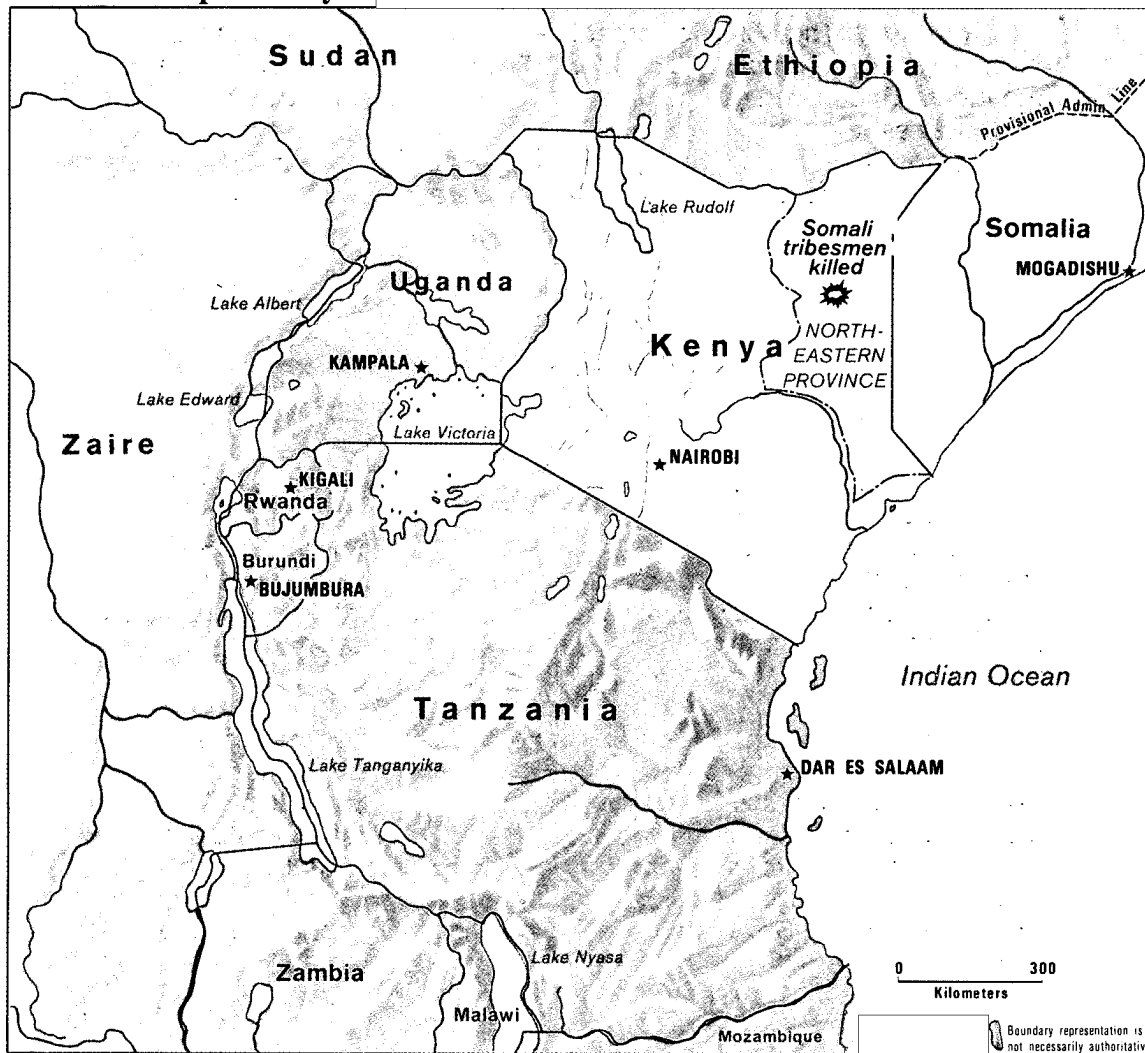
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Tribal Flareup in Kenya

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KENYA-SOMALIA: Rumors of Massacre

The recent killing of several hundred Somali tribesmen in Kenya's North-Eastern Province could become a political problem for President Moi. [] two ethnic Somali subclans clashed last month and Kenyan troops were sent in to restore order. The troops killed a number of tribesmen, the government subsequently withheld food and water from prisoners, and word of a "massacre" has begun to leak. Mogadishu so far has not made an issue of the incident, but Moi has been minimizing the seriousness of the event and has been stalling relief operations in order to keep foreign observers out of the area. []

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Comment: The region long has been troubled by tribal tensions. Nonetheless, continued mishandling of the situation by the government and further attempts by Moi to conceal developments could damage him in the eyes of some international donors and jeopardize badly needed Western aid. []

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ZIMBABWE: Restrictions on Payments Overseas

Zimbabwe's Finance Minister on Tuesday announced major new restrictions on foreign payments. Rent and dividend income payable abroad on investments made in Zimbabwe before September 1979 have been suspended for at least one year. In addition, foreign securities held by commercial banks in Zimbabwe—but controlled by the government under preindependence regulations—will be nationalized, with the current owners paid in Zimbabwean dollars. These measures—and other lesser restrictions—are projected to boost foreign exchange availability by about \$215 million over the next year. []

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Comment: The restrictions are prompted by a deteriorating balance-of-payments position. Large scheduled repayments on short-term debt this year will increase the pressure, as will a rising bill for imported corn because of continuing drought. Although Zimbabwe apparently will continue to permit remittances of up to 50 percent of dividends on investments made after the cutoff date, the new measures cast further doubt on already dim prospects for new foreign investment. []

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TERRORIST WATCH

Western Europe

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— West German security officials believe that the tactics used in committing a bank robbery in Wuerzburg indicate that the Red Army Faction was responsible. The group has been inactive since 1982 as a result of the government's successful counterterrorist operations. It has traditionally used funds obtained from bank robberies to finance its terrorist attacks. [REDACTED]

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Latin America

— Five bomb attacks that apparently were coordinated were carried out on Monday in Honduras against several government installations and the Salvadoran Consulate. A radical leftist terrorist group reportedly has claimed responsibility for the bombings, which may have been intended to protest the election in El Salvador or the mining of Nicaraguan waters by anti-Sandinista forces. [REDACTED]

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Special Analysis

USSR-US: Emerging Arms Control Strategy

The Soviets continue to maintain an intransigent position on the resumption of START and INF. At the same time, they profess interest in progress on other security issues, apparently with the aims of avoiding the charge of intransigence on arms control while probing for US flexibility. The Soviets, however, appear skeptical about the chances for progress. They would demand a high price for any move that would strengthen President Reagan's prospects for reelection by improving bilateral relations. []

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General Secretary Chernenko, in a speech on 2 March, said that a "breakthrough" in bilateral relations is possible if the US moves on secondary security issues. Some Soviets have suggested that such a step could improve the atmosphere for resuming START and INF talks. The USSR, however, would be unlikely to agree to do so for at least the next several months unless the US indicated it would accommodate some Soviet concerns on the major issues. []

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Two Soviet diplomats in Washington have indicated privately that Moscow would resume INF talks this year if the US agreed to a moratorium on further INF deployments, or to the inclusion of British and French systems somewhere in the arms control talks. On the other hand, a TASS analyst on Sunday attributed talk of a freeze on INF deployments to "unseemly maneuvers" by the West. []

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In meetings in Moscow earlier this month with senior US arms control specialists and former government officials—under the auspices of the Dartmouth Conference—and with leaders of the West German Social Democratic Party, Soviet officials rejected the idea of merging START and INF. Some implied and others asserted that neither negotiation could resume unless NATO's new intermediate-range missiles were withdrawn from Western Europe. []

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In addition, some Soviets at the Dartmouth Conference dismissed the "walk-in-the-woods" formula, which would have banned the Pershing II and called for equal launcher levels of US ground-launched cruise missiles and SS-20s in Europe. By rejecting both this formula and a merger of the talks, the Soviets may have wanted to dampen speculation that such avenues could lead to a revival of the talks. As recently as January, some Soviets had raised such a possibility. []

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Other Security Issues

The chief of the USSR's delegation at the UN Conference on Disarmament in Geneva recently told some East Europeans that Moscow wants "meaningful progress" on chemical weapons and that its agreement last month to consider continuous international inspection of destruction sites reflected this. The Soviets reportedly are drafting their own chemical weapons treaty. [REDACTED]

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The Soviets also have maintained a businesslike manner in the recently reconvened Standing Consultative Commission as well as in working-level discussions with the US on nuclear nonproliferation and crisis communications. In his speech, Chernenko implied that progress was possible in these areas. [REDACTED]

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At the Committee on Disarmament in Europe in Stockholm, the Soviets have taken every opportunity to criticize INF deployments but have not categorically rejected Western proposals for confidence- and security-building measures. In this forum, they have made nonuse of force their key proposal. [REDACTED]

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In addition, the Soviets have resumed MBFR talks in Vienna. A deputy director of the Institute for the USA and Canada has said, however, that the USSR would not have done so if those talks had been bilateral. [REDACTED]

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Moscow's Motivations

Moscow's current unyielding position enables it to delay a major adjustment in its arms control policy while continuing to assess political developments in the US and Washington's interest in improving bilateral ties. [REDACTED]

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The Soviets have indicated on a number of occasions that they do not want to take steps that would improve President Reagan's prospects for reelection. Soviet media cite the status of bilateral relations as an issue that could strengthen the Democratic Party's candidate. Moscow may calculate that election pressures will increase the administration's desire for an agreement and that it thus would be willing to make concessions to get one. [REDACTED]

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These considerations suggest the Soviets would be reluctant to take steps to improve bilateral relations before the elections without exacting a substantial price. They may calculate that their continued intransigence on resuming the talks will best serve these objectives and increase domestic political and international pressure on the US to modify its position on arms control. [REDACTED]

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Moreover, the Soviets also may want to await the outcome of the vote in the Netherlands on deployment, hoping that a negative decision would provoke a government crisis and disrupt NATO unity on INF. Recent statements to a Dutch newspaper by an arms control specialist on the Soviet General Staff indicate that Soviet insistence on removing INF missiles as a precondition for resumption of the Geneva talks is intended in part to influence this debate. [REDACTED]

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Moscow's heightened activity in other arms control areas—on which progress would not require reversals of fundamental US or Soviet positions—appears designed to test US intentions. Soviet public statements indicate that Moscow is informed about debate within the US Government on these issues. At the same time, continued Soviet participation in multilateral forums, notably MBFR, and Soviet initiatives on other security issues help them to counter Western skepticism resulting from their walkout from, and refusal to return to, the Geneva talks. [REDACTED]

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